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In the

Supreme Court of the United States

OCTOBER TERM—1966

No. 1018

JOHN F. BRYAN, JR. AND
LESTER N. HAMBRICK, D/B/A
TRAKWORK EQUIPMENT COMPANY

Petitioners,

v.

KERSHAW MANUFACTURING COMPANY

Respondent.

RESPONDENT'S BRIEF

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RESPONDENT'S BRIEF

To The Honorable The Supreme Court of The United States:

Respondent respectfully files this brief in opposition to the Petition for a Writ of Certiorari filed herein seeking a review of the judgment of the United States Court of Appeals for the Fifth Circuit, which affirmed the injunctive relief granted Respondent by the United States District Court for the Northern District of Texas, Dallas Division. As

grounds for opposing said petition, Respondent respectfully shows the Court the following matters:

QUESTION PRESENTED

Respondent is dissatisfied with the formulation by Petitioners of the "Question Presented" for review under the terms and circumstances of this record. Respondent shows that the *holding* of the Court of Appeals about which complaint is actually made by Petitioners herein, as paraphrased from said Court's opinion, is as follows:

> "Where an employee has in confidence gained information concerning a machine incorporating trade secrets and has divulged or attempts to divulge the same after the device has become public by some other means, the Texas law labels such conduct a breach of confidence and will enjoin the reaping of benefits therefrom. The breach of confidence and the damage caused thereby, not a continuing existence of complete secrecy of the information, is the controlling issue."

Respondent submits that the "Question Presented" by Petitioners in their Petition does not correctly track the above holding. To the extent it does not, it does not conform to the terms and circumstances of this particular case. The gravamen of Respondent's complaint, as plaintiff in the trial court, was breach of confidence by a former employee (Petitioner Bryan) in utilizing trade secrets of his former employer (Respondent Kershaw) so as to unfairly benefit another (Petitioner Hambrick.) The record clearly supports the trial court's "Finding of Fact" that information divulged by said former employee constituted "trade secrets" of his

employer and was not such information as might have been available generally to the public by virtue of the fact that the machine had been placed in the public domain.

STATEMENT OF THE CASE

Respondent is dissatisfied with the incompleteness of Petitioners' account of the record under their "Statement of the Case." The essential complaint of Respondent is that said Statement fails to incorporate several important "Findings of Fact" made by the trial court for which the Court of Appeals found ample support in the record. The contents of said omitted "Findings of Fact" (being contained in Findings 3, 4, 6, 7, 10, 14 and 15 reprinted on pages C-1 through C-4 in Appendix C of the Petition) may be summarized as follows:

While in the employ of Kershaw, Bryan worked on the development of a machine and acquired knowledge of its specifications and details which were trade secrets of Kershaw. The machine in question was a sizable, complex and expensive apparatus of such a technical nature that much ingenuity, work and money had to be applied by Kershaw in order to develop it into a practical and successful device, which could be profitably marketed for the use for which it was intended. Between four and five thousand man hours were expended for this purpose and a reasonably skilled engineer could not have fabricated a similar machine in less than two years. Nonetheless, in about one month after termination of his employment with Kershaw, Bryan commenced fabricating a substantially and functionally similar machine for Hambrick. Through the use of trade secrets and

not by inspection of the machine itself, Bryan was able to reduce the time necessary for the design, development and construction of the Hambrick machine. Specifically, a reasonably skilled engineer without knowledge of the development details which Bryan had gained from his employment with Kershaw could not have fabricated a machine for Hambrick in the time in which the Hambrick machine was actually fabricated.

REASONS FOR DENYING THE WRIT

I.

The decision of the Court of Appeals herein does not conflict with the decisions of this Court in *Sears, Roebuck & Co. v. Stiffel*, 376 U.S. 225 (1964) and *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (164). The case at bar involves a breach of confidence by a former employee with reference to trade secrets, the breach giving the former employee an unfair advantage over other members of the public and taking unfair advantage of his former employer's rights. Both the *Stiffel* and the *Compco* cases involved the supremacy of federal patent law over state laws which sought under the guise of "unfair competition" to prohibit the copying, *qua* copying, of unpatentable items on the grounds that otherwise customer confusion as to source would result. Neither the *Stiffel* nor the *Compco* case involves any breach of confidence by a former employee. Both cases do involve rather simple items capable of easy copying. Both said decisions hold that a state cannot by blanket prohibition against copying by the public of unpatentable items

grant protection against infringement to such items not otherwise available under federal patent law. There is nothing in said decisions which prohibits a state from imposing sanctions against individuals who as a result of a breach of a confidential relationship are in a position to more quickly duplicate a complex invention than could the public by direct copying.[1]

II.

The Court of Appeals correctly held that the substantive issues in this case must be decided under Texas state law under the doctrine announced by this Court in *Erie R. Co. v. Tompkins*, 304 U.S. 64, 58 Sup. Ct. 817. The fact that decisions in other Circuits announce conflicting results (which is not necessarily conceded) would not be grounds for reversing the opinion of the Court of Appeals for the Fifth Circuit, based on Texas state law. Further, contrary to the contentions made by Petitioners, the decision of the Court of Appeals herein is not a direct departure from its prior decision in *Kinnear-Weed Corp. v. Humble Oil & Refining Co.*, 259 F. 2d 398. In that said opinion, which was rendered in 1958 well prior to the time that Texas law on the subject of injunctive relief against breach of confidence in trade secret cases had been clarified by the Texas Supreme Court, the Fifth Circuit on an issue comparable to that involved herein, merely agreed with the findings of the trial

[1] Respondent shows, by way of aside, that the application for patent on the Kershaw machine was granted in full by the United States Patent Office subsequent to the commencement of this litigation, and that the Kershaw machine is itself protected now against all infringement by virtue of said patent.)

court that the plaintiff-appellant had not furnished any confidential information to the representatives of defendant-appellee. The trial court in its opinion reported in 150 F. Supp. 143 had made special Findings of Fact that at no time had defendant requested the plaintiff to furnish any information, that the information had been volunteered by plaintiff at a time subsequent to the disclosure by plaintiff of the same information to a number of other interested parties similarly situated as was defendant, and that plaintiff had previously made public sales of the item. Further, the *Kinnear-Weed* case did not involve an employee-employer relationship and the time sequences with reference to the disclosure of the alleged trade secrets was not at all comparable to that in this record.

Request is made by Petitioners for this Honorable Court to establish as a matter of federal jurisprudence that an employee has an unemcumbered right to compete with his former employer and to use indiscriminately after termination of employment any and all information he has gained in that employ. As above detailed, Respondent respectfully submits that in the first instance, said considerations involve a state question, not a federal question. Also, the admitted supremacy of the federal patent law in this area does not require invasion of the prerogative of the states to control the incidences of the employee-employer relationship insofar as they pertain to trade secrets.

III.

The decision of the Court of Appeals herein correctly interprets the controlling applicable Texas law. The decisions

of the Supreme Court of Texas in *Hyde Corporation v. Huffines*, 314 S.W. 2d 763, and *K & G Oil Tool & Service Co. v. G & G Fishing Tool Service*, 314 S.W. 2d 782, clearly created a substantive right in Texas in favor of an employer for injunctive relief to prevent damages arising from breach of confidence where trade secrets used by a former employee are involved. The Court of Appeals correctly held that said decisions make the controlling consideration the *breach of confidence* and not the presence or absence of continued secrecy of the information subsequent to the establishment of the confidence. As the Texas Supreme Court noted in the *Huffines* case:

> "Injunctive relief is not based upon the patent but the circumstances that the petitioner gained knowledge of the device prior to the time of its being patented through the abuse of a confidential relationship . . . The essence of their action is not infringement, but breach of faith. It matters not that defendants could have gained their knowledge from the study of the expired patent and plaintiffs' publicly marketed product. The fact is that they did not. Instead, they gained it from plaintiffs via their confidential relationship, and in so doing, incurred a duty not to use it to plaintiffs' detriment."

Since the trial court found that Bryan did not inspect the Kershaw machine which was in the public domain, but fabricated his machine solely by use of information gained in breach of confidence, and since there is support for this finding in the record, the injunctive relief sanctioned by the Texas Supreme Court in the above cited two cases was correctly applied in favor of Respondent by the federal trial court sitting in Texas. In turn, the Court of Appeals correct-

ly relied on said two Texas Supreme Court decisions in affirming the federal trial court's injunction.

Petitioners maintain that the Fifth Circuit holding in *Kinnear-Weed Corp v. Humble Oil & Refining Co.*, 259 F. 2d 398, which affirmed the federal trial court decision reported in 150 F. Supp. 843, established the proposition in Texas jurisprudence that where a trade secret is publicly disclosed by the owner *after* he has revealed it in confidence to another, and the confidant had used it *after* the owner's public disclosure in competition with the former owner, no cause of action for breach of confidence can accrue to the owner. Respondent shows that this is not at all the import or holding of said two cited cases. It is not so for the simple reason that both courts therein found that there was *no* confidential information disclosed by plaintiff to the defendant. Rather, the record there showed clearly that the alleged confidential information had been *previously* disclosed to many others both by way of patent applications, drawings, models, etc., and by way of public sales of the item. To the extent that the quotation cited from the trial court's decision on page 10 of the Petition is subject to that construction given it by Petitioners when pulled out of context, it is clearly *dictum*, at most, when properly read in context.

In support of their position, reliance is placed by Petitioners on the Texas Supreme Court case of *Luccous v. Kinley*, 376 S.W. 2d 336. However, said decision is inapposite, not only because the facts therein do not involve employer-employee relationships of confidence, but further because said decision involves the effects to be given the public dis-

closure inherent in a patent application once same has been granted. Because of the latter feature, the Texas Supreme Court carefully distinguished its prior decisions in the *Huffines* and *G & G Fishing Tool Service* cases, because the *Luccous* case did not involve any "trade secrets." What the *Luccous* case holds is that in a fact situation where a patent has been obtained the subsequent claims of the patent holder for protection of "trade secrets" with reference thereto is incompatible with his election to surrender the protection of secrecy in return for the patent. Since during all times relevant to the case at bar the patent had not issued, obviously the *Luccous* decision is not controlling.

IV.

While the "Question Presented" in this record (not the Question as presented by Petitioners herein, but as modified by Respondent, *supra)* may be of public importance, the appropriate answer to said question for the reasons above stated is to be given by the state judiciary rather than the federal judiciary. Further, Respondent shows that the most appropriate answer is that answer already given by the Texas Supreme Court. The justification for such result is that technological progress is best served by granting protection to the work and ingenuity which is directly applied to the development of a practical and successful device and by restraining any infringement of same by one who later duplicates the result solely by virtue of a breach of confidence.

CONCLUSION

Since the decision of the Court of Appeals below affirming the decision of the trial court based on applicable Texas law was correct, the Petition for Writ of Certiorari herein should be denied.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing brief have been duly served on opposing counsel on the 24 day of February, 1967, by depositing same in the United States Post Office at Dallas Texas, first class mail, postage prepaid, addressed to counsel of record at the post office address shown on the Petition.

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